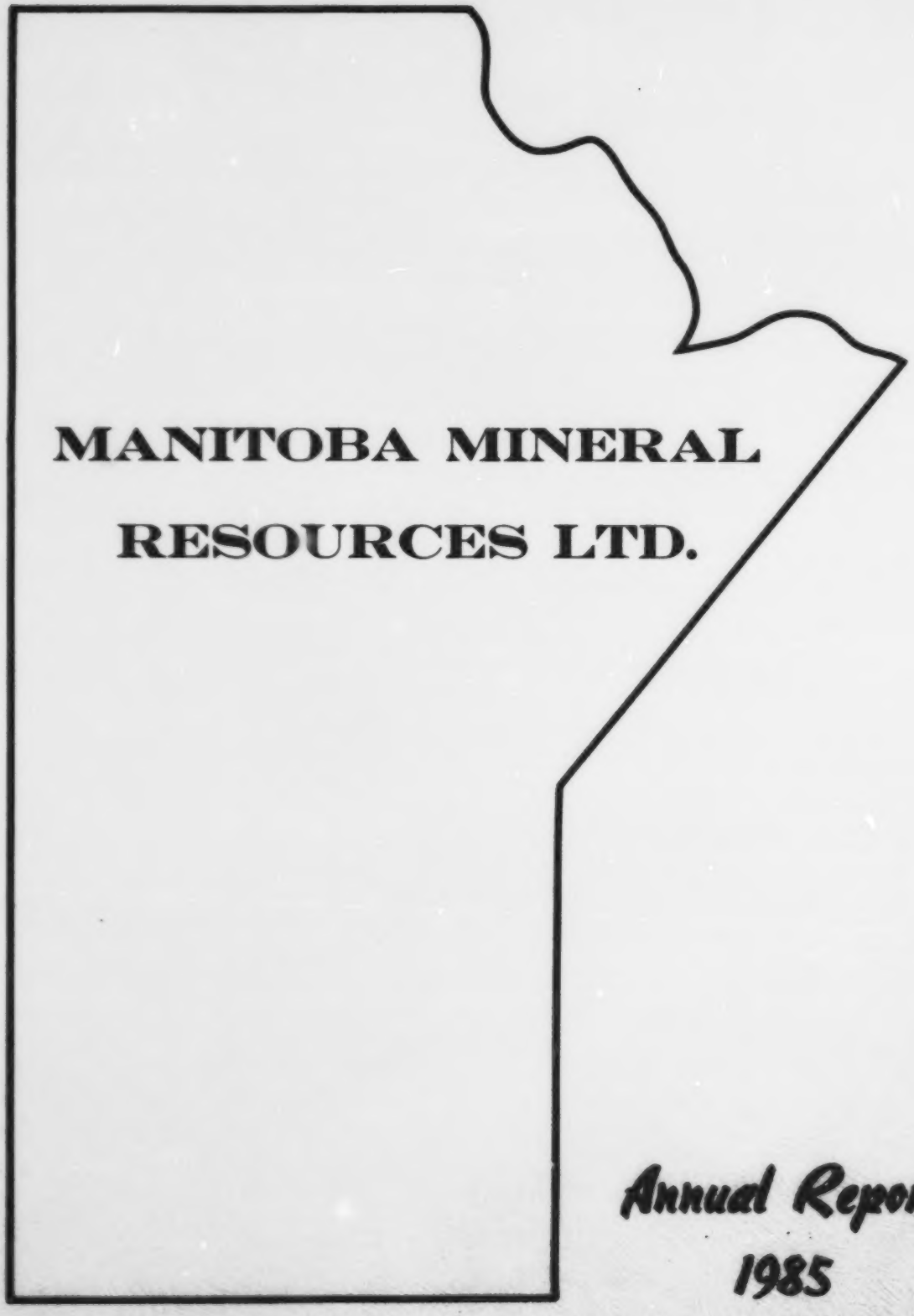


# MANITOBA MINERAL RESOURCES LTD.

*Annual Report*

*1985*

86-04337/

# MANITOBA MINERAL RESOURCES LTD.

## Board of Directors

P. R. BROCKINGTON
*Manager of Investor Identification*
*Department of Industry, Trade and Technology*

B. D. GARDAVE
*Executive Director, Department of Crown Investments*
*Chairman, Manitoba Mineral Resources Ltd.*

C. T. WILLIAMS
*Consulting Mining Engineer*

H. D. B. WILSON
*Consulting Geologist*

## Officers

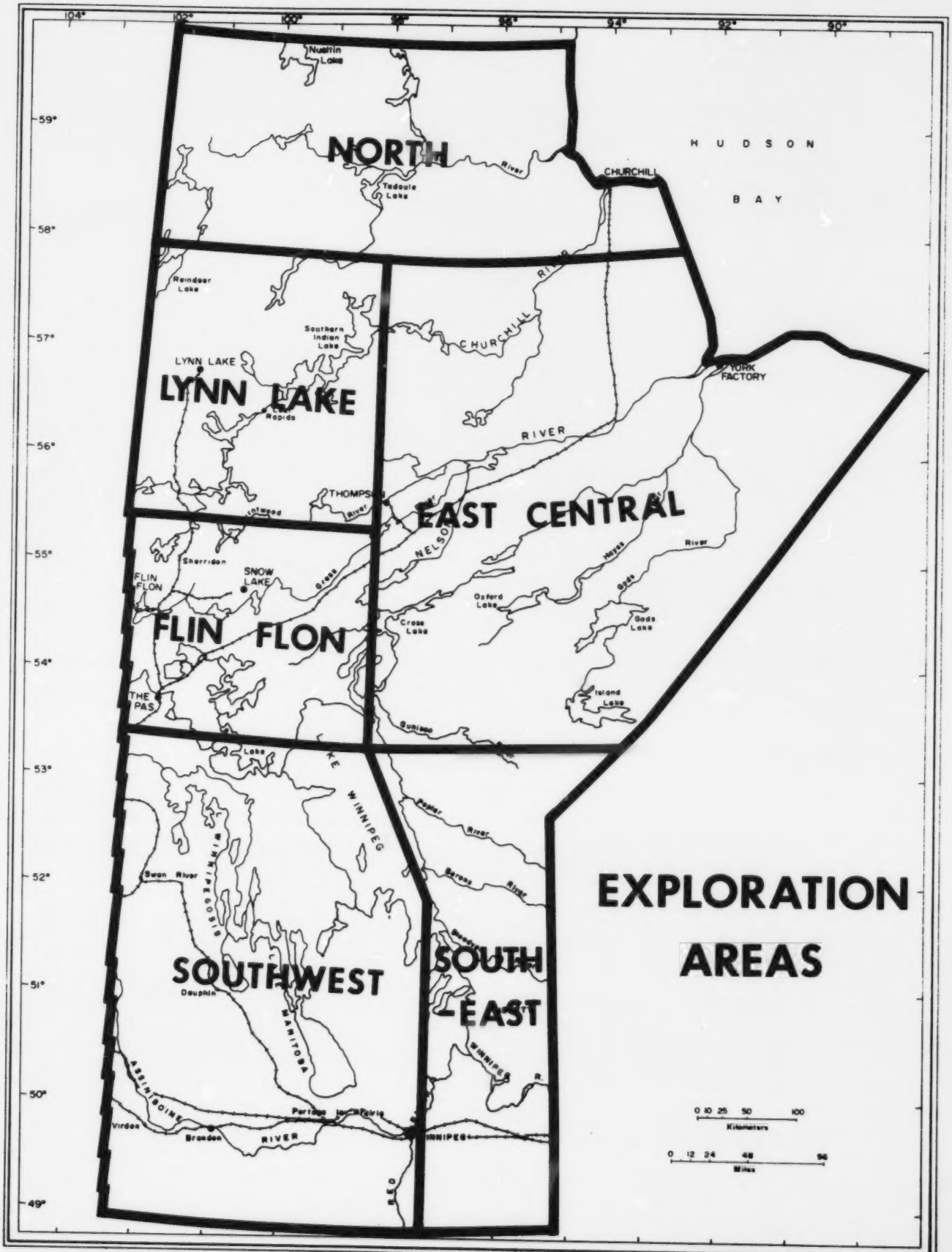
C. MALCOLM WRIGHT
*President*

D. NEIL BRIGGS
*Vice President*

H. D. BRUCE WILSON
*Secretary*

## Head Office

603 - 491 PORTAGE AVENUE, WINNIPEG, MANITOBA R3B 2E4


NORTH
LYNN LAKE
LYNN LAKE
EAST CENTRAL
FLIN FLON
FLIN FLON
SOUTHWEST
SOUTH
EAST
HUDSON
BAY
CHURCHILL
YORK FACTORY
THE PAS
SNOW LAKE
Nueltin Lake
Tadoule Lake
Reindeer Lake
Southern Indian Lake
Sherridon
Cross Lake
Oxford Lake
Gods Lake
Island Lake
Swan River
Dauphin
Virden
Brandon
Portage la Prairie
WINNIPEG
RIVER
EXPLORATION
AREAS
Kilometers
Miles

To the Honourable Wilson Parasiuk
Minister of Energy and Mines
Legislative Building
Winnipeg, Manitoba

SIR:

In accordance with Article 8(1), Chapter N33 of The Manitoba Natural Resources Development Act, the Board of Directors herewith submits the Company's Annual Report for the twelve months ended December 31, 1985. Financial statements are enclosed and include separate statements for exploration operations and the Trout Lake mine.

## FINANCIAL RESULTS

The Company's 27% interest in the Trout Lake mine produced net income of $2,748,420 compared with $1,324,473 in 1984. Revenues amounted to $7,477,275, whereas total costs were $4,728,855.

Exploration expenditures of $3,281,664 were at the highest level in the Company's history and compare with $2,437,790 in the prior year.

The excess of exploration expenditures over Trout Lake income resulted in a net loss of $533,244.

The net loss of $533,244 is an improvement over the 1984 loss of $1,113,317. The reduced net loss was achieved in spite of an increase in exploration expenditures of $843,874. The on-going loss reflects a policy of maintaining intensive exploration activity in the Lynn Lake area in an effort to improve the town's fragile economic base and protect the Province's investment in the area's infrastructure. Exploration expenditures in the Lynn Lake area were $1,927,315 compared with $1,156,067 in 1984.

## MINING OPERATIONS

The Company's share of ore produced from the Trout Lake mine amounted to 140,121 tons grading 2.53% copper, 4.34% zinc, 0.050 oz/ton gold and 0.490 oz/ton silver.

Concentrate sales were $7,319,971 compared with $6,302,249 in the prior year. Improved sales reflect a higher production volume, the mining of a better grade ore, lower concentrate treatment charges and better copper prices, all of which more than offset lower zinc, gold and silver prices.

Improvement also continued on the cost side. Unit operating costs were reduced to $32.96/ton from $36.70/ton in the previous period. Most of the improvement is due to lower development costs following completion in 1984 of an accelerated development program designed to provide access to higher grade ore deeper in the mine.

New ore found by underground exploration kept pace with ore extracted leaving proven reserves essentially unchanged at year-end.

## EXPLORATION OPERATIONS

Exploration activities covered 56 projects. The private sector participated in 35 of the projects; the remaining 21 were carried by the Company for its own account. Total project expenditures, including contributions from the private sector, were $4,758,861 of which the Company contributed $3,101,156 (65%).

Manitoba Mineral (55.2%), acting as operator in a joint venture with Hudson Bay Exploration and Development Company Limited (44.8%), discovered widespread gold mineralization in 1985, near Farley Lake, 24 miles east of Lynn Lake and nine miles north of Provincial Highway 391.

The gold discovery led to a major drilling campaign which is currently in progress. By the end of February, 1986, forty holes had been completed. Drilling has focused on two gold-bearing zones. The zones contain mineable grade mineralization over mineable widths provided enough tonnage can be developed to support an operation.

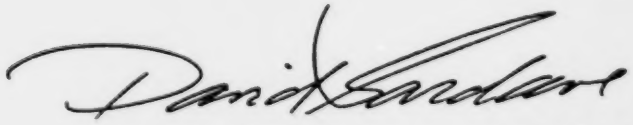
More drilling is required before a meaningful reserve estimate can be made. The current 1986 joint venture budget is $1.4 million (MMR share $0.8 million) and provides for 33,000 feet of drilling. This drilling will be completed by early summer and provides a basis for calculating a reserve estimate leading to a preliminary feasibility study.

The Farley Lake gold discovery is a result of the intensive exploration efforts of the Company in the Lynn Lake area started four years ago. The Company's exploration project expenditures of $1,927,315 in the Lynn Lake area in 1985 accounted for 62% of its total exploration project expenditures.

## PERSONNEL

At year-end the full time staff numbered fourteen, the same as in the previous year. The Board extends to the members of the staff its thanks for their individual contributions to the activities covered by this report.

On Behalf of the Board of Directors,



B. DAVID GARDAVE, *Chairman of the Board.*

April 21, 1986

# *Mining Operations — Trout Lake*

The Trout Lake mine, four miles northeast of Flin Flon, is a joint venture owned by Hudson Bay Mining and Smelting Co., Limited (44%), Manitoba Mineral Resources Ltd. (27%), Granges Exploration Ltd. (19.8%) and Outokumpu Oy (9.2%). Hudson Bay operates the mine and, under a contract covering the life of the mine, mills the partners' share of ore produced. Copper and zinc concentrates are sold to Hudson Bay under contracts expiring in 1987. Data tabulated below show Manitoba Mineral's 27% share of production and ore reserves.

## ORE PRODUCTION

| | Tons | Copper % | Zinc % | Gold oz/ton | Silver oz/ton |
|---|---|---|---|---|---|
| 1985 | 140,121 | 2.53 | 4.34 | 0.050 | 0.490 |
| 1984 | 132,759 | 2.45 | 3.76 | 0.042 | 0.350 |

## PAYABLE METALS PRODUCED

| | Copper lbs. | Zinc lbs. | Gold ozs. | Silver ozs. |
|---|---|---|---|---|
| 1985 | 6,180,459 | 7,802,157 | 4,135 | 38,880 |
| 1984 | 5,595,935 | 6,456,889 | 3,146 | 22,615 |

## PROVEN RESERVES

| | Tons | Copper % | Zinc % | Gold oz/ton | Silver oz/ton |
|---|---|---|---|---|---|
| December 31, 1985 | 1,250,500 | 2.32 | 6.1 | 0.051 | 0.49 |
| December 31, 1984 | 1,249,000 | 2.43 | 5.5 | 0.054 | 0.52 |

Ore production was at a record level both in terms of tonnage and grade. Record tonnage reflects a lower rate of development resulting in the handling of less waste and more ore. The grade of ore mined in previous years was relatively low due to the large contribution of low-grade material in the upper part of the mine. An accelerated development program, begun in 1983 and completed in 1984, gave access to better grade ore at a deeper level. Mining of ore from this deeper level resulted in the improved grade in 1985.

Underground exploration continued to be successful. Tonnage of new ore found essentially matched the tonnage of ore extracted leaving proven reserves virtually unchanged at December 31, 1985. At current mining rates proven reserves will last for 7.8 years. The prospect of increasing the indicated life by further underground exploration is excellent.

Unit operating costs at $32.96/ton were the lowest in the history of the mine and compare with $36.70/ton in 1984. Improved unit costs are due to the lower rate of development and efficiencies achieved by an on-going cost control program.

Larger loading and haulage equipment was ordered for delivery in 1986. The new fleet will allow a production increase and lower unit operating costs. The Company's share of 1986 production is estimated at 162,000 tons (1985: 140,121 tons).

# *Exploration Operations*

The Company starts exploration projects that are wholly-owned in the early stages with the expectation they will attract private sector participation. Conversely, the Company participates in worthwhile projects proposed by the private sector.

Exploration activities in the year covered 56 projects with total expenditures of $4,758,861. The Company contributed $3,101,156 (65%) —the balance, amounting to $1,657,705, was supplied by the private sector.

Direct project expenditures by the Company and its partners are summarized below.

| No. of Projects | Type | MMR Expenditure | Partners' Expenditure | Total Expenditures |
|---|---|---|---|---|
| 21 | Wholly Owned | $1,493,169 | — | $1,493,169 |
| 5 | Joint Ventures managed by MMR | 629,098 | $ 604,842 | 1,233,940 |
| 30 | Joint Ventures managed by partner | 978,889 | 1,052,863 | 2,031,752 |
| 56 | | $3,101,156 | $1,657,705 | $4,758,861 |

SIGNIFICANT RESULTS

Manitoba Mineral (55.2%), acting as operator in a joint venture with Hudson Bay Exploration and Development Company Limited (44.8%), discovered widespread gold mineralization near Farley Lake, 24 miles east of Lynn Lake and nine miles north of Provincial Highway 391.

Fifteen holes totalling 9,361 feet were completed in 1985. Twelve of the holes cut significant gold mineralization in an area measuring 1,800 feet by 1,000 feet, but the drilling pattern was too widely spaced to establish continuity of mineralization between holes.

A major drilling program was started in January, 1986. By the end of February an additional 25 holes totalling 9,774 feet had been completed. The 1986 program is focused on two mineralized zones, the Wendy Zone and the South Zone.

The Wendy Zone has been traced over a length of 350 feet to a depth of 250 feet by 18 holes. The holes contain mineralized intersections averaging 76.6 feet grading 0.22 oz/ton gold.

Four of the 1986 holes tested the South Zone. The best hole intersected two mineralized zones, one over a core length of 20.4 feet assaying 0.18 oz/ton gold and the second over a core length of 36.5 feet assaying 0.20 oz/ton gold.

Results are encouraging but much more drilling is needed to make a meaningful reserve estimate. The current 1986 joint venture budget is $1.4 million (MMR share $0.8 million) and provides for 33,000 feet of drilling and preliminary metallurgical studies. The scheduled drilling should be completed by early summer and will provide sufficient data to make a reserve estimate and a preliminary feasibility study.

## AREAS EXPLORED AND METALS SOUGHT

For ease of reference the Province is divided into a number of exploration areas (see map at front). A summary of Manitoba Mineral's expenditures by area is given in the following table.

| Area | No. of Projects | MMR Expenditures | Expenditures % Total |
|---|---|---|---|
| Lynn Lake | 25 | $1,927,315 | 62.2 |
| Flin Flon | 27 | 943,233 | 30.4 |
| Southeast | 4 | 230,608 | 7.4 |
| | 56 | $3,101,156 | 100.0 |

The distribution of total expenditures by metals sought is: copper-zinc 59.6%; gold 37.7%. Research on project generation accounted for 2.7% of total expenditures.

## NEW PROJECTS

Eight new projects were started: three in the Lynn Lake area, four in the Flin Flon area, and one in the Southeast area. Three are designed to explore for copper-zinc mineralization; five are targeted at gold.

## NEW AGREEMENTS

Two new joint venture agreements were entered into as detailed below:

| Project | Area | Partner | MMR Interest (%) at Dec. 31, 1985 |
|---|---|---|---|
| Squall | Flin Flon | Noranda Exploration Company Limited | 50.0 |
| Barrington | Lynn Lake | Sherritt Gordon Mines Limited | 23.0 |

The Company optioned two properties from prospectors, one in the Wallace Lake area near Bissett and the other in the Reed Lake area south of Snow Lake.

## MANITOBA MINERAL RESOURCES LTD.

### REPORT OF THE PROVINCIAL AUDITOR'S OFFICE

We have examined the balance sheet of Manitoba Mineral Resources Ltd. as at December 31, 1985 and the statement of exploration expenditures, the Trout Lake Mine statement of operations, and the statement of changes in financial position for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of Manitoba Mineral Resources Ltd. as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with the accounting policies stated in note 3 to the financial statements applied on a basis consistent with that of the preceding year.

F. H. JACKSON, C.A.,
*Provincial Auditor.*

February 17, 1986 except as to Note 9
which is as of March 24, 1986.
Winnipeg, Manitoba.

MANITOBA MINERAL RESOURCES LTD.

BALANCE SHEET
as at December 31, 1985
*(with comparative figures at December 31, 1984)*

## *ASSETS*

| | 1985 | 1984 |
|---|---|---|
| Current assets: | | |
| Cash — in bank | $ 200,197 | $ 33,927 |
| — in trust with the Minister of Finance | 2,370,000 | 3,110,000 |
| Settlements and accounts receivable [Notes 3(b) and 6] | 1,010,188 | 1,060,993 |
| Accrued interest receivable | 44,503 | 44,567 |
| Prepaid expenses | 4,056 | 3,964 |
| Total current assets | 3,628,944 | 4,253,451 |
| Fixed assets [Notes 3(c) and (d)]: | | |
| Field equipment | 163,612 | 164,625 |
| Office equipment | 40,988 | 40,988 |
| Office renovations | 5,975 | 5,975 |
| Vehicles | 22,907 | 16,135 |
| Exploration and development — Trout Lake mine | 1,129,830 | 1,114,897 |
| | 1,363,312 | 1,342,620 |
| Less: accumulated depreciation | 162,729 | 145,492 |
| accumulated amortization — Trout Lake mine | 446,982 | 362,582 |
| | 609,711 | 508,074 |
| Fixed assets, net | 753,601 | 834,546 |
| | $4,382,545 | $5,087,997 |

Approved on behalf of the Board:

B. D. GARDAVE, *Director*

H. D. B. WILSON, *Director*

***The accompanying notes are an integral part of the financial statements.***

## *LIABILITIES*

| | 1985 | 1984 |
|---|---|---|
| Current liabilities: | | |
| Accounts payable | $ 120,648 | $ 292,856 |
| Total current liabilities | 120,648 | 292,856 |

## *SHAREHOLDER'S EQUITY*

| | | |
|---|---|---|
| Capital stock (Notes 1 and 4): | | |
| Authorized — unlimited number of shares without par value for unlimited consideration | | |
| Issued and fully paid — | | |
| 5 shares at $1.00 each | 5 | 5 |
| 680,000 shares at $10.00 each | 6,800,000 | 6,800,000 |
| | 6,800,005 | 6,800,005 |
| Deficit, beginning of year | 2,004,864 | 891,547 |
| Exploration expenditures, net, Exhibit B | 3,281,664 | 2,437,790 |
| Net income, Trout Lake mine, Exhibit C | (2,748,420) | (1,324,473) |
| Deficit, end of year | 2,538,108 | 2,004,864 |
| Shareholder's equity, net | 4,261,897 | 4,795,141 |
| | $4,382,545 | $5,087,997 |

*The accompanying notes are an integral part of the financial statements.*

Exhibit B

## MANITOBA MINERAL RESOURCES LTD.

### STATEMENT OF EXPLORATION EXPENDITURES
For the year ended December 31, 1985
*(with comparative figures for the year ended December 31, 1984)*

| | 1985 | 1984 |
|---|---|---|
| Exploration expenditures: | | |
| Wholly owned ventures | $1,493,169 | $1,031,622 |
| Joint ventures operated by Manitoba Mineral Resources Ltd. | 1,233,940 | 653,827 |
| Deduct: recoveries from joint venture partners | 604,842 | 216,463 |
| | 629,098 | 437,364 |
| Joint ventures operated by partners | 978,889 | 773,324 |
| Total joint venture exploration expenditures | 1,607,987 | 1,210,688 |
| | 3,101,156 | 2,242,310 |
| Ruttan Mine evaluation | — | 39,271 |
| General and administration expenses, net, Schedule 1 | 249,938 | 219,439 |
| | 3,351,094 | 2,501,020 |
| Income: | | |
| Oil production | 7,690 | 3,247 |
| Management fees | 58,091 | 23,538 |
| Option payments and sales of interests | 667 | 33,765 |
| Sundry | 2,982 | 2,680 |
| | 69,430 | 63,230 |
| Exploration expenditures, net, [Note 3(d)], Exhibit A | $3,281,664 | $2,437,790 |

*The accompanying notes are an integral part of the financial statements.*

Exhibit C

# MANITOBA MINERAL RESOURCES LTD.

## TROUT LAKE MINE

### STATEMENT OF OPERATIONS
For the year ended December 31, 1985
*(with comparative figures for the year ended December 31, 1984)*

| | 1985 | 1984 |
|---|---|---|
| **Revenue:** | | |
| Sales of concentrates [Note 3(b)] | $7,319,971 | $6,302,249 |
| Interest income | 157,304 | 108,776 |
| | 7,477,275 | 6,411,025 |
| **Expenses:** | | |
| Mining | 3,490,173 | 3,892,920 |
| Milling | 1,081,862 | 1,028,819 |
| Monitoring | 22,082 | 20,136 |
| | 4,594,117 | 4,941,875 |
| Operating income before other expenses: | 2,883,158 | 1,469,150 |
| **Other expenses:** | | |
| Amortization of exploration and development expenditures | 84,400 | 98,737 |
| Administration, Schedule 1 | 50,338 | 45,940 |
| | 134,738 | 144,677 |
| Net income, Exhibit A | $2,748,420 | $1,324,473 |

*The accompanying notes are an integral part of the financial statements.*

Exhibit D

## MANITOBA MINERAL RESOURCES LTD.

### STATEMENT OF CHANGES IN FINANCIAL POSITION

For the year ended December 31, 1985

*(with comparative figures for the year ended December 31, 1984)*

| | 1985 | 1984 |
|---|---|---|
| Source of funds: | | |
| Shares issued and paid | $ — | $2,189,000 |
| Trout Lake mine operations, Exhibit C | 2,748,420 | 1,324,472 |
| Add non-cash charge, amortization | 84,400 | 98,737 |
| | 2,832,820 | 3,612,209 |
| Application of funds: | | |
| Exploration expenditures, net, Exhibit B | 3,281,664 | 2,437,790 |
| Less non-cash charge, depreciation | 25,412 | 9,728 |
| | 3,256,252 | 2,428,062 |
| Purchase of fixed assets, net | 13,934 | 71,048 |
| Mine development expenditures | 14,933 | 11,833 |
| | 3,285,119 | 2,510,943 |
| Increase (decrease) in working capital | (452,299) | 1,101,266 |
| Working capital, beginning of period | 3,960,595 | 2,859,329 |
| Working capital, end of year | $3,508,296 | $3,960,595 |

*The accompanying notes are an integral part of the financial statements.*

Schedule 1

## MANITOBA MINERAL RESOURCES LTD.

### SCHEDULE OF GENERAL AND ADMINISTRATION EXPENSES

For the year ended December 31, 1985

*(with comparative figures for the year ended December 31, 1984)*

| | 1985 | 1984 |
|---|---|---|
| Salaries, wages and employee benefits | $ 164,345 | $ 167,589 |
| Office rent | 47,598 | 46,498 |
| Equipment rental and maintenance | 9,898 | 8,043 |
| Accounting and audit | 23,637 | 23,771 |
| Legal | 9,182 | 10,188 |
| Telephone | 8,572 | 8,876 |
| Printing, postage and supplies | 15,425 | 16,036 |
| Directors fees | 2,000 | 2,800 |
| Depreciation | 25,412 | 9,728 |
| Corporation capital tax | 19,181 | 7,438 |
| Other | 18,822 | 13,809 |
| | 344,072 | 314,776 |
| Less allocated: | | |
| Trout Lake mine | 50,338 | 45,940 |
| Exploration expenditures | 43,796 | 49,397 |
| | 94,134 | 95,337 |
| General and administration expenses, net, Exhibit B | $ 249,938 | $ 219,439 |

*The accompanying notes are an integral part of the financial statements.*

MANITOBA MINERAL RESOURCES LTD.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 1985

*1. Status of the Company*

Manitoba Mineral Resources Ltd. is a crown corporation established under The Manitoba Natural Resources Development Act and incorporated under the Manitoba Corporations Act. The issued shares are held by the Province of Manitoba except for five shares which are held by the appointed directors in trust for Her Majesty the Queen in right of the Province of Manitoba. The Company is authorized to issue an unlimited number of common shares for an unlimited maximum consideration.

*2. Nature of the Operations*

The Company undertakes exploration for minerals in the Province of Manitoba through wholly owned ventures and joint ventures. These joint ventures are operated by either the Company or the partners.

The Company also maintains an interest in the development, mining and processing of ore from the Trout Lake mine and the sale of the concentrates. This activity is further explained in note 5.

*3. Significant Accounting Policies*

(a) Accounting basis
The accounts are reflected on the accrual basis of accounting.

(b) Settlements receivable
The Company entered into a contract with Hudson Bay Mining and Smelting Co., Limited for the sale of its concentrates. Under the terms of the contract, the concentrates are deemed to be sold at the time of delivery of ore to the mill. The settlements receivable on sales of ore concentrates are recorded at the estimated net realizable value.

(c) Fixed assets and depreciation
Fixed assets are recorded at cost. Depreciation is taken on a straight line basis.

(d) Exploration and development expenditures and amortization
Exploration costs are charged to expense as incurred. They are capitalized when a mine is brought into production. The development costs associated with bringing a property into an operating mine status are capitalized. The capitalized costs in respect to an operating mine are amortized by the unit-of-production method based on estimated recoverable reserves.

*4 Authority to Purchase Shares*

The Province of Manitoba authorized the purchase of shares of the Company as a method of funding the Company's activities as follows:

| Authority | Amount Used to Purchase Shares | Amount Authorized |
|---|---|---|
| The Loan Act, 1982 | $ 2,800,000 | $ 2,800,000 |
| The Loan Act, 1983 (2) | 4,000,000 | 5,600,000 |
| The Loan Act, 1984 (2) | — | 7,062,000 |
| | $ 6,800,000 | $15,462,000 |

*5. Trout Lake Mine*

The Trout Lake Mine is an unincorporated joint venture which is limited to the development and operation of the mine. The joint venture partners take the ore produced in proportion to their interests and are individually responsible for processing of the ore and sale of the concentrates.

The Company has a 27% interest in the joint venture. Hudson Bay Mining and Smelting Co., Limited has 44%, Granges Exploration Ltd. 19.833% and Outokumpu Oy 9.167%.

These financial statements reflect the Company's revenue and expenditures for its 27% interest in the joint venture operations and the additional activities outside of the joint venture, including arrangements for the processing of the ore, sale of concentrates, monitoring and administration.

*6. Settlements and Accounts Receivable*

| | Dec. 31, 1985 | Dec. 31, 1984 |
|---|---|---|
| Settlements receivable on sales of Trout Lake mine concentrates [Note 3(b)] | $ 965,975 | $1,000,188 |
| Accounts receivable | 44,213 | 60,805 |
| | $1,010,188 | $1,060,993 |

MANITOBA MINERAL RESOURCES LTD.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 1985

7. *Contingent Liabilities*

(a) Authorized funds available from the Province of Manitoba, in the amount of $8,239,348 have been drawn down as conditional working capital grants since the inception of Manitoba Mineral Resources Ltd. and netted against the deficit account. No such grants were drawn down in 1985 or 1984. These grants are non-interest bearing and conditional on the basis that they become repayable to the Province if, as and when exploration projects become profitable ventures.

(b) The Company has contingent liabilities for guarantees of bank letters of credit totalling $75,000 ($125,000 - December 31, 1984).

8. *Exploration Expenditures*

The total exploration expenditures from inception to December 31, 1985 are $14,919,085 ($11,637,421 - from inception to December 31, 1984).

9. *Subsequent Event*

On March 24, 1986 the Company issued 60,000 shares to the Province of Manitoba for a total amount of $600,000.

10. *Comparative Figures*

Comparative figures for the year ended December 31, 1984 have been restated to conform with the presentation adopted for the current year.